

VZCZCXRO5824  
OO RUEHLMC  
DE RUEHTG #1285/01 3482051  
ZNR UUUUU ZZH  
O 142051Z DEC 09 ZDK  
FM AMEMBASSY TEGUCIGALPA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1308  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE IMMEDIATE  
RUCPDO/DEPT OF COMMERCE WASHDC IMMEDIATE  
RHEBAA/DEPT OF ENERGY WASHDC IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
RUMIAAA/USOUTHCOM MIAMI FL IMMEDIATE  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC IMMEDIATE 1279  
RUEAORC/US CUSTOMS AND BORDER WASHDC IMMEDIATE

UNCLAS SECTION 01 OF 02 TEGUCIGALPA 001285

SENSITIVE  
SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [ETRD](#) [HO](#)  
SUBJECT: TFH01: CHEVRON SENDS MIXED MESSAGES ON LEAVING  
HONDURAS

REF: A. TEGUCIGALPA 466  
[1](#)B. TEGUCIGALPA 357  
[1](#)C. 08 TEGUCIGALPA 526

[1](#)1. (SBU) Summary: In meetings with the Ambassador and economic officers, Chevron representatives expressed concern about continuing financial losses tied to the GOH's application of an unfavorable formula for the pricing of finished oil products. The Chevron representatives said that the company will probably pull out of Honduras if the issue is not resolved by the end of the first quarter of 2010. The de facto commerce minister told Chevron that he would raise the issue in an upcoming Council of Ministers meeting but indicated that the regime may not be able to act given its interim status. A decision on the issue is likely to be left for President-elect Pepe Lobo. End summary.

[1](#)2. (SBU) After the Embassy received word that a senior Chevron executive had told Department of Commerce officials in Washington that the company was considering withdrawing from Honduras, the Ambassador asked to meet with local Chevron representatives. In the November 25 meeting, the Ambassador told El Salvador District Manager Carlos Reyes, who is covering Honduras in the absence of Honduras District Manager Ana Belinda Martinez, that this problem remains a serious concern for the Embassy. He asked Reyes about Chevron's future in Honduras. Reyes dismissed reports of the company's possible closure as a rumor.

[1](#)3. (SBU) However, in a December 8 meeting with the Economic Counselor and Economic Officer, Miami-based Chevron executive Kevin Wolahan confirmed that Chevron's top management is considering closing the Honduras operation if the fuel formula issue is not resolved by the end of the first quarter of 2010. Reyes and consultant Eduardo Del Valle, who has been retained by Chevron to work on the issue, also attended the meeting. Wolahan emphasized the urgency of the problem of the pricing formula, which, with its lack of connection to market realities, is causing persistent losses for Chevron. Although the pricing formula has been problematic since its inception in 2007, Del Valle said that the situation has become more serious since the June 28 coup. Petroleos de Venezuela, S.A., the state-owned Venezuelan petroleum company, cut off fuel bound for Honduras from its Curacao refinery after the coup. No U.S. or Caribbean refinery is willing to load the quantity or quality of fuel needed at prices in line with the formula. U.S. refineries in the Gulf are designed to supply the mainland via pipeline, not sea bound export. JetA1 fuel for Honduras is hard to come by, since it is not used in the U.S. market. To meet these needs, Chevron must often shop around to locate product and wait in line at public docks to load it. All of these factors increase costs, which the pricing formula does not

take into account. Del Valle noted that Honduras is the only Latin American country where freight logistics are not figured into the import parity formula.

¶4. (SBU) Walahan said that the company is continuing to work on repairs of the terminal in Puerto Cortes, which sustained \$9 million in damages in an earthquake in May 2009 and currently operates at just a fraction of original capacity. However, management is beginning to question the wisdom of continuing to invest in the terminal repairs if the company continues to lose money on operations within Honduras.

¶5. (SBU) According to Walahan, Chevron is focusing primarily on the two most urgent priorities: a removal of the requirement that the wholesale price of premium gasoline be the same as regular, and an elimination of an arbitrary negative discount affixed at the terminal. If these concerns are addressed, he said, Chevron will consider that the climate is improving and will not take immediate action to suspend operations in Honduras. Another key issue the company hopes to resolve is the GOH requirement that oil be invoiced by its volume at 60 degrees rather than at the ambient temperature. Asked by the Economic Counselor whether Chevron considers free-market pricing a realistic goal in the longer term, Walahan said that the removal of price controls in El Salvador was a good sign in this regard.

¶6. (SBU) The Chevron executives said that they had met with de facto Minister of Industry and Commerce Benjamin Bogran

TEGUCIGALP 00001285 002 OF 002

regarding the issue. Bogran told them that a positive resolution may not be possible given the interim nature of the current administration, but he promised to raise the issue in an upcoming Council of Ministers meeting. He said he hoped to have an answer for the Chevron executives by Christmas. Bogran also promised to raise the issue with the minister-designate in the incoming administration of President-elect Pepe Lobo, once one is named. The Chevron officials had scheduled a meeting with Lobo, but it was canceled, and they were trying to schedule a meeting with his transition team.

¶7. (SBU) Walahan asked whether the Embassy could intervene with the de facto regime on the pricing formula issue. The Economic Counselor replied that, while this is a high-priority issue for the Embassy, raising the issue with Honduran officials would not be possible given the fact that the U.S. government does not recognize the regime. (Note: The Ambassador plans to mention the issue to President-elect Lobo and make clear that this is an important investor issue he needs to look at carefully. End Note)

¶8. (SBU) Comment: Despite Bogran's promise to raise the issue in the Council of Ministers, it is unlikely that the de facto regime will make the politically unpopular move of changing the fuel formula during its remaining weeks in office. The issue will probably be left to Lobo, who has already taken on the separate but related issue of gasoline subsidies. In one of his first speeches after the election, Lobo noted that 80 percent of the value of gasoline subsidies goes to the richest 20 percent of the population. He pledged to abolish subsidies like this that do not benefit the poor. Although taking on the fuel formula issue will be politically difficult for the new president, losing a major fuel supplier would hurt Honduras more in the long term. Once political conditions allow us to engage with the Honduran government, this issue will be high on our agenda. End comment.

LLORENS